



P.O. Box 2749  
Sacramento, CA 95812-2749  
TTY: For Speech & Hearing Impaired (916) 795-3240  
(916) 795-3400

February 14, 2011

## **AGENDA ITEM 5b**

### **TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Investment Office Risk Heat Map and Target Operating Model Update
- II. PROGRAM:** Total Fund
- III. RECOMMENDATION:** Information
- IV. ANALYSIS:**

This agenda item provides an update on the Investment Office Risk Heat Map and Target Operating Model projects. These two projects are aligned with the Investment Office Organization Systems and Controls strategic priority. The priority objective is to design and implement a robust, integrated operating model that minimizes complexity, improves transparency, and strengthens processes, systems, governance and controls.

The attached presentation (Attachment 1) provides a summary of the Risk Heat Map and Target Operating Model projects, along with a prioritized list of initiatives and capabilities needed to reduce operating and investment risk.

#### Investment Office Risk Heat Map

In the first phase of the Investment Office Risk initiative, staff developed a risk framework and risk governance model. In the second phase, staff formed a rapid results team to develop a Risk Heat Map – a prioritized list of the major risks in the Investment Office.

In order to develop the heat map, the team conducted an INVO wide risk survey and interviewed senior staff to develop key risk themes. To prioritize each risk and reach consensus, senior staff participated in a workshop where each member voted on the “likelihood” and “impact” of each risk. The responses resulted in a Risk Heat Map, which included a prioritized ranking of the identified risks.

Target Operating Model

Simultaneously with developing the Risk Heat Map, staff completed a project to evaluate and design a target operating model for the Investment Office. This project evaluated Investment Office functions, systems, and controls against asset management industry best practices. The Target Operating Model provides more detailed analysis of certain of the risks identified in the Risk Heat Map. The key gaps in functions have been prioritized to indicate which require initiatives and resources for the upcoming fiscal year.

The work teams completed these projects in December 2010, and the Heat Map and Target Operating Model were used to develop priorities for the 2011–12 Investment Office Road Map.

**V. STRATEGIC PLAN:**

This item supports the following CalPERS Strategic Goals:

- Goal I – exercise global leadership to ensure the sustainability of CalPERS pension and health benefit systems.
- Goal IX – achieve long-term, sustainable, risk-adjusted returns.

**VI. RESULTS/COSTS:**

The costs associated with phase 1 of target operating model implementation are included in the Investment Office's 2011–12 budget request.

---

JANINE GUILLOT  
Chief Operating Investment Officer

---

JOSEPH A. DEAR  
Chief Investment Officer